

MAURY REGIONAL HOSPITAL

Annual Financial Report

June 30, 2014



MAURY REGIONAL HOSPITAL

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SECTION I
INTRODUCTORY SECTION

BOARD OF TRUSTEES AND MANAGEMENT OFFICIALS

June 30, 2014

Board of Trustees

Doug Williamson, Chairman

Robert Thompson, M.D., Vice Chairman

Alan Watson, Secretary

Charlotte Battles

Scott Gaines

Sue Gray, M.D.

Mike Green

Houston Jameson, M.D. (ex-officio)

Houston Parks

Mike Tyler, D.D.S.

Management Officials

Alan Watson, Chief Executive Officer

Nick Swift, Chief Financial Officer

Paul Betz, Chief Operating Officer

Chris Edwards, M.D., Chief Medical Officer

Deborah Lumpkins, Chief Nursing Officer



October 27, 2014

To the State of Tennessee - Comptroller of the Treasury
Department of Audit & Municipal Division and
Patrons of the Hospital:

State law requires all entities operating in the public sector to publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting standards generally accepted in the United States of America. Pursuant to that requirement, we hereby issue this annual financial report for Maury Regional Hospital, headquartered in Columbia, Tennessee. The reporting period is the twelve months ended June 30, 2014.

Maury Regional Hospital, the Hospital, was created in 1953 by a Private Act of the State of Tennessee. The Hospital is a proprietary enterprise fund of Maury County, Tennessee and the nine members of the Board of Trustees are appointed by the Maury County Commission to three year terms.

As a proprietary enterprise fund of Maury County, the Hospital is required to use the same accounting principles generally accepted in the United States, otherwise known as GAAP, as similar Hospitals in the private sector. In addition to the Notes to the Financial Statements, GAAP prescribes three basic financial statements: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows.

If you have any questions about this report or need additional information, contact the Board of Trustees of Maury Regional Hospital at 1224 Trotwood Ave., Columbia, Tennessee 38401.

Respectfully Submitted,

Doug Williamson, Chairman
Board of Trustees

SECTION II
FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Maury Regional Hospital:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the business-type activities and aggregate discretely presented component units of Maury Regional Hospital (the Hospital), a part of the primary government of Maury County, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

The Hospital's management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Maury Regional Hospital as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the combined financial statements present only the business-type activities and the aggregate discretely presented component units of Maury Regional Hospital and do not purport to, and do not, present fairly the financial position of Maury County, Tennessee as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information: Maury Regional Hospital has omitted a Management Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. The MD&A, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Pastrick Yarbly: Amato PC

Knoxville, Tennessee
October 27, 2014

MAURY REGIONAL HOSPITAL

Combined Statements of Net Position

	<i>June 30, 2014</i>		<i>June 30, 2013</i>	
	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 37,077,128	\$ 428,549	\$ 28,530,791	\$ 1,274,249
Certificates of deposit	320,251	-	317,771	-
Investments	1,129,753	-	756,065	-
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately \$34,700,000 in 2014 and \$31,500,000 in 2013	30,728,755	368,202	32,829,322	224,958
Inventories	4,413,292	36,865	4,938,545	54,418
Prepaid expenses	3,251,369	45,962	2,831,889	128,516
Due (to) from affiliates	585,192	(585,192)	610,809	(610,809)
Other receivables	1,131,981	2,089	1,179,979	467
TOTAL CURRENT ASSETS	78,637,721	296,475	71,995,171	1,071,799
ASSETS LIMITED AS TO USE	38,793,535	-	34,067,302	-
EQUITY INTEREST IN JOINT VENTURES	80,124	-	566,463	-
PROPERTY, PLANT AND EQUIPMENT, net	117,585,335	5,796,004	121,209,388	6,124,652
OTHER ASSETS	3,597,888	-	2,355,955	79,853
TOTAL ASSETS	\$ 238,694,603	\$ 6,092,479	\$ 230,194,279	\$ 7,276,304

See notes to combined financial statements.

MAURY REGIONAL HOSPITAL

Combined Statements of Net Position - Continued

	<i>June 30, 2014</i>		<i>June 30, 2013</i>	
	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Current portion of long-term debt	\$ 3,005,939	\$ 740,130	\$ 4,774,447	\$ 613,737
Accounts payable and accrued expenses	9,708,959	290,049	7,435,923	375,777
Accrued salaries and wages	7,022,034	-	5,777,504	-
Accrued compensated absences	5,581,195	-	5,576,923	-
Accrued workers' compensation	4,145,265	-	3,879,657	-
Estimated amounts due to third party payers, net	4,734,690	-	5,225,755	-
Interest payable	44,677	-	61,790	-
TOTAL CURRENT LIABILITIES	34,242,759	1,030,179	32,731,999	989,514
OTHER LONG-TERM LIABILITIES	5,398,829	-	6,756,476	-
LONG-TERM DEBT				
Bonds payable	12,017,892	-	16,273,675	-
Other long-term debt	6,772,553	5,762,366	2,843,988	6,042,118
	18,790,445	5,762,366	19,117,663	6,042,118
Less current portion	(3,005,939)	(740,130)	(4,774,447)	(613,737)
TOTAL LONG-TERM DEBT	15,784,506	5,022,236	14,343,216	5,428,381
NET POSITION				
Net investment in capital assets	98,880,738	33,638	102,200,060	82,534
Unrestricted	84,387,771	6,426	74,162,528	775,875
TOTAL NET POSITION	183,268,509	40,064	176,362,588	858,409
TOTAL LIABILITIES AND NET POSITION	\$ 238,694,603	\$ 6,092,479	\$ 230,194,279	\$ 7,276,304

See notes to combined financial statements.

MAURY REGIONAL HOSPITAL

Combined Statements of Revenue, Expenses and Changes in Net Position

	<i>Year Ended June 30, 2014</i>	
	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>
OPERATING REVENUE		
Net patient service revenue, net of provision for bad debts	\$ 283,445,476	\$ 2,939,005
Other operating revenue	12,458,173	930
TOTAL OPERATING REVENUE	295,903,649	2,939,935
OPERATING EXPENSES		
Salaries, employee benefits and contract labor	168,897,316	1,013,589
Supplies	52,848,374	189,259
Purchased services	25,516,849	819,036
Professional fees	3,332,657	560,957
Repairs and maintenance	3,351,732	11,318
Utilities	4,889,326	23,415
Leases	4,680,051	643,424
Insurance	2,051,973	3,026
Other expenses	7,037,878	99,520
Depreciation and amortization	16,969,349	679,020
TOTAL OPERATING EXPENSES	289,575,505	4,042,564
INCOME (LOSS) FROM OPERATIONS	6,328,144	(1,102,629)
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	1,163,994	-
Investment income	1,022,764	-
Interest expense	(723,540)	(365,716)
Other	(6,082)	-
Equity in joint venture losses	(879,359)	-
TOTAL NONOPERATING REVENUE (EXPENSES)	577,777	(365,716)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	6,905,921	(1,468,345)
Capital contributions/funding	-	650,000
CHANGE IN NET POSITION	6,905,921	(818,345)
NET POSITION, BEGINNING OF YEAR	176,362,588	858,409
NET POSITION, END OF YEAR	\$ 183,268,509	\$ 40,064

See notes to combined financial statements.

MAURY REGIONAL HOSPITAL

Combined Statements of Revenue, Expenses and Changes in Net Position - Continued

	<i>Year Ended June 30, 2013</i>	
	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>
OPERATING REVENUE		
Net patient service revenue, net of provision for bad debts	\$ 277,946,567	\$ 2,136,220
Other operating revenue	8,984,335	10,365
TOTAL OPERATING REVENUE	286,930,902	2,146,585
OPERATING EXPENSES		
Salaries, employee benefits and contract labor	166,635,962	524,694
Supplies	51,031,235	52,884
Purchased services	22,159,513	481,579
Professional fees	4,576,013	431,981
Repairs and maintenance	3,238,439	9,884
Utilities	4,875,460	507
Leases	4,394,385	503,076
Insurance	1,400,375	3,886
Other expenses	6,511,732	163,643
Depreciation and amortization	16,793,916	69,789
TOTAL OPERATING EXPENSES	281,617,030	2,241,923
INCOME (LOSS) FROM OPERATIONS	5,313,872	(95,338)
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	1,065,578	-
Investment income	285,159	-
Interest expense	(690,225)	(65,505)
Other	(25,667)	-
Equity in joint venture losses	(89,230)	-
TOTAL NONOPERATING REVENUE (EXPENSES)	545,615	(65,505)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	5,859,487	(160,843)
Capital contributions/funding	-	1,648,583
CHANGE IN NET POSITION	5,859,487	1,487,740
NET POSITION, BEGINNING OF YEAR	170,503,101	(629,331)
NET POSITION, END OF YEAR	\$ 176,362,588	\$ 858,409

See notes to combined financial statements.

MAURY REGIONAL HOSPITAL

Combined Statements of Cash Flows

	Year Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from patients and insurance programs	\$ 283,422,880	\$ 277,447,562
Payments to vendors for supplies and other	(101,330,031)	(101,926,468)
Payments to and on behalf of employees	(167,108,455)	(164,949,309)
Other receipts	11,710,980	9,039,267
NET CASH PROVIDED BY OPERATING ACTIVITIES	26,695,374	19,611,052
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:		
Contributions and grants	1,163,994	1,065,578
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property, plant and equipment	(8,362,006)	(12,928,319)
Proceeds from sale of equipment	151,220	216,033
Payments on long-term debt	(5,024,391)	(4,865,262)
Interest paid on long-term debt	(791,436)	(809,375)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(14,026,613)	(18,386,923)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income received on cash and investments	1,022,764	285,159
Proceeds from maturities of certificates of deposit	638,022	949,309
Purchase of certificates of deposit	(640,502)	(635,542)
Purchases of investments	(5,099,921)	(164,874)
Investment in joint venture	(393,020)	(976,650)
Issuance of notes receivable	(813,761)	-
Purchase of surgery center intangible assets	-	(2,321,648)
NET CASH USED IN INVESTING ACTIVITIES	(5,286,418)	(2,864,246)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,546,337	(574,539)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	28,530,791	29,105,330
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 37,077,128	\$ 28,530,791

See notes to combined financial statements.

MAURY REGIONAL HOSPITAL***Combined Statements of Cash Flows - Continued***

	<i>Year Ended June 30,</i>	
	<i>2014</i>	<i>2013</i>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 6,328,144	\$ 5,313,872
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	16,969,349	16,793,916
Provision for bad debts	39,303,585	34,298,539
Changes in:		
Patient accounts receivable	(37,203,018)	(34,183,373)
Inventories	525,253	263,300
Prepaid expenses	(419,480)	(352,485)
Due from affiliates	25,617	34,383
Other assets	(772,810)	20,549
Accounts payable and accrued expenses	2,273,036	(3,650,131)
Accrued salaries and wages	1,244,530	614,520
Accrued compensated absences	4,272	573,311
Accrued workers' compensation	265,608	200,419
Estimated amounts due to third party payers	(491,065)	860,005
Other long-term liabilities	(1,357,647)	(1,175,773)
TOTAL ADJUSTMENTS	20,367,230	14,297,180
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 26,695,374	\$ 19,611,052
SUPPLEMENTAL INFORMATION:		
Equipment acquired through capital leases	\$ 4,747,956	\$ 3,100,000

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements

Years Ended June 30, 2014 and 2013

NOTE A—ORGANIZATION

Maury Regional Hospital (the Hospital) is operated and maintained by Maury County, Tennessee, under authority of and in compliance with the provisions of Chapter 125 of the Tennessee Private Acts of 1996. The federal, state, and local governments participated in the cost of constructing and equipping the Hospital under the Hill-Burton Act. For financial reporting purposes, the Hospital is considered an enterprise fund of Maury County, Tennessee (the County).

The Hospital's primary mission is to provide healthcare services to the residents of southern and Middle Tennessee, including Giles, Hickman, Lawrence, Lewis, Marshall, Maury, Perry, Wayne, and Williamson counties. The financial statements present the Hospital and its component units. The Hospital is comprised of the following operating entities:

Maury Regional Medical Center (MRMC), located in Columbia, Tennessee, has been in operation since 1953 and presently has a 275-bed capacity with 20 beds designated for skilled nursing care, and also includes five medical office buildings in its service area.

Marshall Medical Center is an acute care hospital, located in Lewisburg, Tennessee, which was acquired by the Hospital in 1995 and is designated a Critical Access Hospital with 25 licensed beds.

Wayne Medical Center (WMC) is an acute care hospital with an 80-bed capacity located in Waynesboro, Tennessee, and has been leased by the Hospital since 1995 (see Note I).

Blended Component Units: The combined financial statements include the following blended component units that provide healthcare services that support the Hospital's mission:

Family Health Group, Inc. (FHG) is a nonprofit corporation which acquires, owns, operates, and manages physician practices in the Hospital's service area. The Hospital is the sole member of FHG and funds its operating losses.

Maury Regional Ambulatory Surgery Center (the Surgery Center) is a nonprofit corporation that provides medical care to non-emergent patients in the Hospital's service area. The Hospital is the sole member of the Surgery Center and funds its operating losses. Operations at the Surgery Center began in fiscal year 2014.

Maury Regional Healthcare Foundation (the Foundation) is a not-for-profit organization formed to coordinate the fundraising activities of the Hospital. The Hospital is the sole member of the Foundation and appoints all Board members. The Hospital also funds all operating expenses of the Foundation.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

Discretely Presented Component Units: The discretely presented component units column in the financial statements includes joint ventures in which the Hospital has a majority ownership. The Hospital's intent in owning a portion of these joint ventures is to expand the healthcare services it provides. They are reported in a separate column to emphasize that they are legally separate from the Hospital and include the following entities:

Spring Hill Imaging Center, LLC (the Imaging Center) owns and operates an outpatient center that provides diagnostic and radiology services to patients in the Hospital's service area. The Imaging Center is owned 51% by the Hospital.

Vanderbilt-Maury Radiation Oncology, LLC (VMRO) owns and operates an outpatient center that provides radiation oncology treatment services to patients in the Hospital's service area. VMRO is owned 60% by the Hospital. Operations at VMRO began in fiscal year 2014.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting: The Hospital utilizes the enterprise fund method of accounting. Revenue and expenses are recorded on the accrual basis using the economic resources measurement focus.

Recently Issued or Effective Accounting Pronouncements: In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes reporting standards that reclassify items previously reported as assets or liabilities as deferred inflows or outflows and was adopted by the Hospital in 2014. GASB Statement No. 65 further requires that costs associated with the issuance of long-term debt, other than insurance costs, be expensed in the period incurred, rather than deferred and amortized over the term of the related debt. The adoption did not have a material impact on the combined financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 provides guidance for improved accounting and financial reporting by state and local government entities related to pensions. It also replaces the requirements of GASB Statement No. 27 and Statement No. 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Additionally, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Management Date*, which is effective concurrent with Statement No. 68. Among other requirements, the Hospital will have to record a net pension liability that is based on fiduciary plan net position rather than on plan funding and provide explanatory disclosures in the notes to the combined financial statements. These Statements are required for fiscal years beginning after June 15, 2014 with early adoption encouraged. These Statements will be effective for the Hospital in 2015 and management and its actuaries are currently evaluating its impact on the combined financial statements.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

Estimates: The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents includes cash on hand, deposits in banks and investments with a maturity of three months or less when purchased, excluding any amounts whose use is limited by Board designation.

Inventories: Inventories consist principally of medical and surgical supplies and are reported at the lower of cost or market, with cost determined by the average cost method.

Patient Accounts Receivable: Patient accounts receivable are reported net of an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare and other third party payer programs. The bad debt allowance is estimated based upon the age of the account, prior experience and any unusual circumstances which affect the collectibility. The Hospital's policy does not require collateral or other security for patient accounts receivable and the Hospital routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Investments and Assets Limited as to Use: Investments and assets limited as to use are reported at estimated fair value based on quoted market prices. Interest, dividends, and gains and losses (realized and unrealized) are included in investment income. The Board has designated certain assets as limited as to use for future capital improvements.

Property, Plant and Equipment: Property, plant and equipment is reported at cost or fair value at date of gift, if donated. The Hospital has established a capitalization threshold of \$1,000. Depreciation is calculated by the straight-line method to allocate the cost of the assets (other than land) over their estimated useful lives which ranges from 3 to 20 years for equipment and 10 to 40 years for buildings and land improvements. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the estimated useful life or the lease term. This amortization is included with depreciation expense and as part of accumulated depreciation in the combined financial statements. Interest costs incurred on applicable borrowings outstanding during the construction period of capital assets is capitalized as part of the cost of acquiring the asset and is amortized on the same basis as the related capital asset. Costs of maintenance and repairs are charged to expense when incurred. The Hospital periodically reviews property, plant, and equipment for indications of potential impairment. Management does not believe any impairment exists as of June 30, 2014.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

Intangible Assets: Intangible assets, including goodwill, are amortized over their estimated useful life and included in other assets in the combined financial statements.

Compensated Absences: The Hospital's employees earn paid time off at varying rates depending on years of service. An accrual for paid time off is recorded in the period in which the employee earns the right to the compensation. Employees also earn sick leave benefits based on varying rates depending on years of service and may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire after the age of sixty may convert accumulated sick leave to termination payments. The estimated amount of sick leave which will ultimately be payable as termination payments totals approximately \$1,970,000 and \$1,950,000 at June 30, 2014 and 2013, respectively, and is reported as a noncurrent liability in the combined financial statements. Due to uncertainties in this estimate, it is at least reasonably possible that management's estimate could change in 2015.

Net Position: *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net position* is remaining assets that do not meet the definition of *net investment in capital assets*.

Net Patient Service Revenue: Net patient service revenue is reported as services are rendered at estimated net realizable amounts, including estimated retroactive revenue adjustments under reimbursement agreements with third party payers. Estimated settlements under third party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. An estimated provision for bad debts is included in net patient service revenue.

Charity Care: The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Operating Activities: The Hospital defines operating activities as reported on the Combined Statements of Revenue, Expenses and Changes in Net Position as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Non-exchange transactions, including contributions and grants, as well as interest income and interest expense, are considered nonoperating revenue and expenses.

Contributions and Grants: Revenues from contributions and grants are recognized when all eligibility requirements are met. Contributions and grants may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions, if any, are reported after nonoperating revenue and expenses.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

Income Taxes: The Hospital meets the Internal Revenue Service definition of a governmental unit and is exempt from federal income taxes. As taxable entities, the owners of the Imaging Center and VMRO are subject to state and federal income taxes.

Subsequent Events: The Hospital evaluated all events or transactions that occurred after June 30, 2013 through October 27, 2014, the date the combined financial statements were available to be issued. Management did not note any subsequent events that required recognition or disclosure in the combined financial statements at June 30, 2014.

NOTE C--PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The Hospital has agreements with various third party payers that provide for payments to the Hospital at amounts different from established rates. The difference between the rates charged and the estimated payments from third party payers is recorded as a reduction of gross patient service charges. Revenue for patient service charges has been adjusted to the amounts estimated to be receivable under third party payer arrangements. Amounts recorded under these contractual arrangements are subject to review and final determination by various program intermediaries. Management believes that adequate provision has been made for any adjustments which may result from such reviews. However, due to uncertainties in the estimates, it is at least reasonably possible that management's estimates will change in 2015. Net patient service revenue for the years ended June 30, 2014 and 2013 decreased by approximately \$1,000,000 and \$1,510,000, respectively, due to adjustments of estimates or final settlements of prior periods.

A summary of the payment arrangements with significant third party payers follows:

Medicare: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid primarily on a prospective basis. These rates vary according to a patient classification system that is based on clinical diagnosis, procedures utilized and other factors. The Medicare program continues to reimburse certain other services based on a per diem or on a percentage of cost up to predetermined limits. The Hospital also receives additional payments from the Medicare program for providing services to a disproportionate share of Medicaid (TennCare) and other low income patients. Approximately \$11,300,000 and \$12,200,000 of net patient accounts receivable are due from the Medicare program at June 30, 2014 and 2013, respectively.

TennCare: The State of Tennessee's Medicaid waiver program (TennCare) provides coverage through several managed care organizations. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts. Approximately \$2,300,000 and \$2,900,000 of net patient accounts receivable are from payers under the TennCare program at both June 30, 2014 and 2013, respectively.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

During 2014 and 2013, the Hospital received additional distributions under the TennCare Essential Access, federal matching and other programs totaling approximately \$1,860,000 and \$1,170,000, respectively. Future distributions under these programs are not guaranteed.

Other Payers: The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates, discounts from established charges, and prospectively determined per diem amounts.

Charity Care: The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenue. The estimated direct and indirect cost of providing these services totaled approximately \$3,050,000 and \$4,130,000 in 2014 and 2013, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated under a reasonable and systematic approach.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue is as follows:

	<i>Year Ended June 30,</i>	
	<i>2014</i>	<i>2013</i>
Patient service charges	\$ 872,323,010	\$ 808,604,515
Contractual adjustments	(539,225,868)	(483,292,686)
Provision for bad debts	(39,303,585)	(34,298,539)
Charity care	(10,348,081)	(13,066,723)
	<u>\$ 283,445,476</u>	<u>\$ 277,946,567</u>

NOTE D--CASH, CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, INVESTMENTS AND ASSETS LIMITED AS TO USE

The carrying amount of deposits and investments included in the Hospital's Combined Statements of Net Position is as follows:

	<i>2014</i>	<i>2013</i>
Bank deposits	\$ 45,978,723	\$ 37,577,938
Investments	31,341,944	26,093,991
	<u>\$ 77,320,667</u>	<u>\$ 63,671,929</u>

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

These amounts are included in the combined financial statements as follows:

	2014	2013
Cash and cash equivalents	\$ 37,077,128	\$ 28,530,791
Certificates of deposit	320,251	317,771
Investments	1,129,753	756,065
Assets limited as to use	38,793,535	34,067,302
	<u>\$ 77,320,667</u>	<u>\$ 63,671,929</u>

The Hospital holds deposits only in banks participating in the State of Tennessee Collateral Pool, and in banks that provide collateral for all deposits or banks that are members of the Federal Deposit Insurance Corporation (FDIC).

Additionally, the Hospital's deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2014, the Hospital's bank balances for deposits totaled \$38,896,177, a majority of which was insured by the FDIC or by the bank's participation in the State of Tennessee's collateral pool. Remaining deposits totaling \$1,517,108 are collateralized by securities held by the financial institution and pledged as collateral for the Hospital's deposits.

The estimated fair values and maturities for investments, all of which were held in the Hospital's name by a custodial bank that is an agent of the Hospital, are as follows at June 30, 2014:

Investment Type	Carrying Amount	Investment Maturities in Years			N/A
		Less than 1	1-5		
Mutual funds - fixed income	\$ 4,871,979	\$ -	\$ -	\$ 4,871,979	
Mutual funds - equity	4,866,924	-	-	4,866,924	
Government agency bonds	10,947,587	500,660	10,446,927	-	
Corporate and municipal bonds	10,655,454	2,080,463	8,574,991	-	
	<u>\$ 31,341,944</u>	<u>\$ 2,581,123</u>	<u>\$ 19,021,918</u>	<u>\$ 9,738,903</u>	

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

Interest Rate Risk: As a means to limiting its exposure to fair value losses by rising interest rates, the Hospital's investment policy limits investment in U.S. treasury securities, government agency bonds or notes, corporate bonds, and municipal bonds to those with maturities of less than five years.

Credit Risk: The Hospital's investment policy restricts investments in corporate bonds to those with a credit rating of at least BBB and municipal bonds to those with a rating of at least AA. Mutual funds' underlying investments must meet the same credit ratings as other investments. The credit rating of the Hospital's corporate and municipal bonds is as follows at June 30, 2014:

<i>Rating</i>	<i>Carrying Amount</i>
AAA	\$ 511,633
AA	3,828,505
A	5,668,014
BBB	647,302
	<u>\$ 10,655,454</u>

Concentration of Credit Risk: The Hospital's investment policy limits investments in corporate bonds to 50% of total investments with no security issuer exceeding 5% of total investments and municipal bonds to 25% of total investments with no security issuer exceeding 5% of total investments. There is no limit on investments in U.S. treasury securities, government agency bonds or notes. Mutual funds containing corporate bonds should not exceed 50% of total investments and a single mutual fund should not exceed 25% of total investments. Equity investments cannot exceed 15% of total investments. An investment in the equity of a single corporation and a single equity mutual fund should not exceed 5% and 15%, respectively, of total investments.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral. All investments are in the Hospital's name at a custodial bank.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment and related accumulated depreciation for the years ended June 30, 2014 and 2013 is as follows:

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

	Balance July 1, 2013	Additions/ Transfers	Retirements	Balance June 30, 2014
Capital assets being depreciated				
Land improvements	\$ 5,607,338	\$ 6,095	\$ -	\$ 5,613,433
Buildings	175,928,849	5,285,847	-	181,214,696
Equipment	159,695,177	10,240,489	(1,273,512)	168,662,154
Total capital assets being depreciated	341,231,364	15,532,431	(1,273,512)	355,490,283
Less accumulated depreciation for:				
Land improvements	4,083,835	384,436	-	4,468,271
Buildings	100,980,555	7,510,000	-	108,490,555
Equipment	127,791,212	8,682,277	(1,116,210)	135,357,279
Total accumulated depreciation	232,855,602	16,576,713	(1,116,210)	248,316,105
Total capital assets being depreciated, net	108,375,762	(1,044,282)	(157,302)	107,174,178
Capital assets not being depreciated				
Land	7,830,363	255,612	-	8,085,975
Construction in progress	5,003,263	(2,678,081)	-	2,325,182
Total capital assets not being depreciated	12,833,626	(2,422,469)	-	10,411,157
Total capital assets, net	\$ 121,209,388	\$ (3,466,751)	\$ (157,302)	\$ 117,585,335
	Balance July 1, 2012	Additions/ Transfers	Retirements	Balance June 30, 2013
Capital assets being depreciated				
Land improvements	\$ 5,556,184	\$ 51,154	\$ -	\$ 5,607,338
Buildings	171,240,236	4,688,613	-	175,928,849
Equipment	148,666,648	12,267,224	(1,238,695)	159,695,177
Total capital assets being depreciated	325,463,068	17,006,991	(1,238,695)	341,231,364
Less accumulated depreciation for:				
Land improvements	3,906,794	177,041	-	4,083,835
Buildings	93,593,430	7,387,125	-	100,980,555
Equipment	119,830,407	8,957,800	(996,995)	127,791,212
Total accumulated depreciation	217,330,631	16,521,966	(996,995)	232,855,602
Total capital assets being depreciated, net	108,132,437	485,025	(241,700)	108,375,762
Capital assets not being depreciated				
Land	7,830,363	-	-	7,830,363
Construction in progress	5,305,765	(302,502)	-	5,003,263
Total capital assets not being depreciated	13,136,128	(302,502)	-	12,833,626
Total capital assets, net	\$ 121,268,565	\$ 182,523	\$ (241,700)	\$ 121,209,388

During 2014 and 2013, the Hospital capitalized interest expense on construction projects totaling approximately \$59,500 and \$94,000, respectively. Construction in progress at June 30, 2014 consists primarily of facility renovations and the total estimated costs required to complete construction in progress is approximately \$3,700,000.

MAURY REGIONAL HOSPITAL**Notes to Combined Financial Statements - Continued****Years Ended June 30, 2014 and 2013****NOTE F--LONG-TERM DEBT**

Long-term debt consists of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Bonds Payable:		
Series 2012B, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 1.50% to 2.00%, maturing over a 8-year period, with the final payment due April 1, 2020.	\$ 1,955,000	\$ 3,430,000
Series 2006B, Maury County General Obligation Bonds issued on behalf of the Hospital, with an interest of 4.00%, maturing June 1, 2014.	-	1,310,000
Series 2006, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 4.125% to 5.00%, maturing over a 15-year period, with the final payment due June 1, 2021.	9,840,000	11,260,000
Total bonds payable	11,795,000	16,000,000
Unamortized premiums	222,892	273,675
Total bonds payable, net of unamortized premiums	12,017,892	16,273,675
Other Long-term Debt:		
Note payable with interest rate of 6.29%, maturing January, 2014	-	6,699
Note payable with interest rate of 2.85%, maturing April, 2019	2,034,792	-
Note payable with interest rate of 2.85%, maturing February, 2024	2,187,871	-
Capital lease obligations - see Note H	2,549,890	2,837,289
Total other long-term debt	6,772,553	2,843,988
	18,790,445	19,117,663
Less: current portion	3,005,939	4,774,447
	<u>\$ 15,784,506</u>	<u>\$ 14,343,216</u>

The Hospital's bonds payable are general obligation bonds of Maury County, Tennessee. The bonds were issued for the purpose of acquiring property and equipment or for the retirement of previously outstanding bonds and notes and to pay issuance costs. The bonds are secured by unlimited ad valorem taxes on all taxable property within the County.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

The Series 2006 Bonds maturing on or after June 1, 2017 are subject to redemption prior to maturity at the option of the County on June 1, 2016 or thereafter, at a redemption price of par plus accrued interest.

The Hospital's scheduled principal maturities on all long-term debt as of June 30, 2014 (including the capital lease obligations and excluding unamortized premiums) follows:

<i>Year Ending June 30</i>	<i>Principal</i>	<i>Interest</i>
2015	\$ 3,005,939	\$ 671,853
2016	3,081,692	558,603
2017	3,050,859	443,705
2018	2,821,724	341,779
2019	2,358,214	249,013
2020-2024	4,249,125	296,330
	<u>\$ 18,567,553</u>	<u>\$ 2,561,283</u>

A schedule of changes in long-term debt for the years ended June 30, 2014 and 2013 is as follows:

	<i>Balance July 1, 2013</i>	<i>Additions/ Amortization</i>	<i>Payments/ Maturities</i>	<i>Balance June 30, 2014</i>	<i>Amounts Due Within One Year</i>
Bonds payable	\$ 16,000,000	\$ -	\$ (4,205,000)	\$ 11,795,000	\$ 1,735,000
Unamortized premiums	273,675	(50,783)	-	222,892	-
Other long-term debt	2,843,988	4,747,956	(819,391)	6,772,553	1,270,939
	<u>\$ 19,117,663</u>	<u>\$ 4,697,173</u>	<u>\$ (5,024,391)</u>	<u>\$ 18,790,445</u>	<u>\$ 3,005,939</u>

	<i>Balance July 1, 2012</i>	<i>Additions/ Amortization</i>	<i>Payments/ Maturities</i>	<i>Balance June 30, 2013</i>	<i>Amounts Due Within One Year</i>
Bonds payable	\$ 20,135,000	\$ -	\$ (4,135,000)	\$ 16,000,000	\$ 4,205,000
Unamortized premiums	390,913	(117,238)	-	273,675	-
Other long-term debt	474,250	3,100,000	(730,262)	2,843,988	569,447
	<u>\$ 21,000,163</u>	<u>\$ 2,982,762</u>	<u>\$ (4,865,262)</u>	<u>\$ 19,117,663</u>	<u>\$ 4,774,447</u>

NOTE G--EMPLOYEE BENEFIT PLANS

Defined Benefit Plan: Prior to May 1, 1997, all employees of the Hospital were eligible to participate in the Maury Regional Hospital Retirement Plan (the Plan), a single-employer public retirement system (PERS), accounted for as a separate entity from the Hospital. The purpose of the Plan is to provide retirement, death, and certain other benefits to employees as specified in the Plan.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

The actuarial method generally employed to determine contributions to the Plan is the entry age normal actuarial cost method. Although it has not expressed any intention to do so, the Hospital has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

The Plan was amended effective May 1, 1997 to stop accrual of benefit service on April 30, 1997 for participants who made an irrevocable election to participate in the Maury Regional Healthcare System 403(b) Plan on May 1, 1997. As of May 1, 2014, 92 participants are earning future service accruals. Employees hired after May 1, 1997, are not eligible to participate in the Plan.

Defined Benefit Plan Funding Policy: Voluntary contributions may not be made by participants. The Hospital's contributions are based on an actuarially determined rate. The Hospital's annual pension cost for 2014 was \$828,000. The Hospital's net pension obligation to the Plan for 2014 and 2013 was zero. The annual required contribution for the current year was determined as part of the May 1, 2014, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions used included the following:

- 8.00% investment rate of return
- projected salary increases ranging from 4.0% to 7.5% per year
- amortization method - level dollar amount

Three-Year Trend Information

<i>Fiscal Year</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>	<i>Pension Obligation</i>
April 30, 2012	728,000	100.00%	-
April 30, 2013	849,000	100.00%	-
April 30, 2014	828,000	100.00%	-

A schedule of funding progress for the Plan follows:

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b-a)</i>	<i>Funded Ratio (a/b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a % of Covered Payroll (b-a)/c</i>
May 1, 2012*	41,072,361	45,825,802	4,753,441	89.6%	5,236,422	90.8%
May 1, 2013*	42,139,707	46,600,942	4,461,235	90.4%	5,103,414	87.4%
May 1, 2014*	43,664,889	48,003,687	4,338,798	91.0%	4,437,900	97.8%

*Entry age normal actuarial method utilized for determining the unfunded actuarial liability.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

The unfunded actuarial accrued liability is being amortized as a level percentage of covered payroll over 30 years beginning in fiscal 2009.

Defined Contribution Plan: Effective May 1, 1997, the Hospital implemented a defined contribution plan which includes a 403(b) feature and an employer matching provision and covers substantially all hourly and salaried employees. Voluntary contributions may be made by the participants as a percentage of annual compensation not to exceed Internal Revenue Service limits. The Hospital's contribution in 2014 consists of a matching contribution equal to 100% of the first 3% of annual compensation and an additional matching contribution equal to 125% of the employees' contribution from 4-5% of annual compensation if the employee has five or more years of service. The Hospital's contribution in 2013 consisted of a base contribution of 3% of annual covered compensation and a matching contribution equal to 50% of the employees' first 5% of annual compensation contributed if the employee had five or more years of service. The Hospital's total contributions for the years ended June 30, 2014 and 2013 was approximately \$3,960,000 and \$4,460,000, respectively.

NOTE H--LEASES

Capital Leases: The Hospital leases medical equipment under various capital lease agreements with interest rates ranging from 2.4% to 3.7%. A summary of the leased equipment, which is included in property, plant and equipment, at June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Equipment acquired under capital leases	\$ 3,285,000	\$ 3,100,000
Less accumulated amortization	(888,128)	(244,117)
	<u>\$ 2,396,872</u>	<u>\$ 2,855,883</u>

The following is a schedule of the future minimum lease payments required under capital leases as of June 30, 2014:

<u>Year Ending June 30,</u>	
2015	\$ 778,757
2016	778,757
2017	705,170
2018	436,354
2019	14,816
Total minimum lease payments	2,713,854
Amount representing interest	(163,964)
Present value of minimum lease payments	<u>\$ 2,549,890</u>

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

Operating Leases: The Hospital also rents office space and equipment under various non-cancelable operating lease agreements with varying terms. Rent expense under operating lease agreements totaled approximately \$4,530,000 and \$4,390,000 for the years ended June 30, 2014 and 2013, respectively.

Future minimum lease commitments for all significant non-cancelable operating leases, excluding discretely presented component units, are as follows:

<i>Year Ending June 30,</i>	
2015	\$ 2,467,575
2016	2,006,348
2017	1,928,960
2018	1,538,686
2019	1,459,687
2020-2024	7,685,116
2025-2029	6,506,767
2030-2034	2,310,589
	<u>\$ 25,903,728</u>

Leases with Physicians: The Hospital leases office space in its medical office buildings to physicians under non-cancelable operating leases with varying terms. Rental income under these lease agreements totaled approximately \$1,760,000 and \$1,440,000 for the years ended June 30, 2014 and 2013, respectively. Future minimum lease commitments to the Hospital for all significant non-cancelable operating leases to physicians are as follows:

<i>Year Ending June 30,</i>	
2015	\$ 1,055,822
2016	928,603
2017	647,894
2018	151,214
2019	21,187
	<u>\$ 2,804,720</u>

NOTE I--LEASED HEALTHCARE FACILITIES

Effective July 1, 2005, the Hospital entered into the first of two five-year renewal options provided under a lease arrangement with the Board of Trustees of Wayne County General Hospital for the operation of several Wayne County healthcare facilities, including the county hospital, nursing home, ambulance service and medical office buildings. The lease also extends to all equipment,

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

improvements, fixtures and related personal property. Effective July 1, 2010, the lease was amended to exclude the operations of the nursing home. The annual lease expense, as amended, is \$150,000 for the first year only and an annual capital improvement commitment of \$200,000. The amended lease provides for two five-year renewal options which occur automatically unless the Hospital provides notice of its intent to terminate the lease at least 180 days in advance.

NOTE J--COMMITMENTS AND CONTINGENCIES

General Liability Claims: The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant losses to the Hospital.

Malpractice Liability Claims: The Hospital is subject to claims and suits arising in the ordinary course of business from services provided to patients. Losses against the Hospital are limited by the Tennessee Governmental Tort Liability Act to \$300,000 for injury or death per person and \$700,000 per occurrence. However, claims against healthcare practitioners are not subject to these limits. The Hospital maintains professional liability insurance on a claims made basis with limits of \$1,000,000 per occurrence with a retention of \$250,000 per claim and a \$3,000,000 annual aggregate with a \$750,000 annual aggregate retention. The Hospital has estimated and recorded a liability for reported claims totaling approximately \$1,130,000 and \$1,020,000 at June 30, 2014 and 2013, respectively. In management's opinion, the Hospital is currently not a party to any proceeding, the ultimate resolution of which will have a material adverse effect on the Hospital's results of operations or financial condition. The Hospital has not estimated any liability for incurred but not reported claims.

Workers' Compensation Claims: The Hospital is covered for workers' compensation claims through an insurance policy with a deductible of \$500,000 per claim. Management has recorded an accrual for the estimated liability related to claims reported as of June 30, 2014 and 2013. The Hospital has not estimated any liability for incurred but not reported claims.

Healthcare Benefits: The Hospital maintains a partially self-insured healthcare plan to provide reimbursement for covered expenses incurred as a result of illness or injury to covered employees and dependents. Stop-loss insurance is purchased for annual claims per individual exceeding \$300,000 with a life-time maximum per individual totaling \$750,000. The Hospital has estimated and recorded a liability for healthcare claims incurred but not yet reported totaling approximately \$2,270,000 and \$2,010,000 at June 30, 2014 and 2013, respectively. Employees that retire after attaining age sixty and completing twenty years of service will receive continued coverage under the Hospital's health benefit program until they attain age sixty-five or become eligible for Medicare benefits. The estimated amount of retirement health benefits payable totaled approximately \$400,000 and \$216,500 at June 30, 2014 and 2013, respectively, and is reported as a noncurrent

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

liability in the combined financial statements. Due to uncertainties in the estimate, it is at least reasonably possible that management's estimate could change in 2015.

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under the provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers, such as the Medicare Recovery Audit Contractor Program. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that any amounts that may be payable related to audits through the Medicare Recovery Audit Contractor program, or similar initiatives, have been estimated and recorded as Other Long-term Liabilities in the combined financial statements and therefore, any additional impact on the combined financial statements will not be significant. However, due to the uncertainties involved, management's estimate could change in the near future.

Healthcare Reform: In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act. The legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Changes to existing TennCare coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required as a result of such legislation over a period of several years. Accordingly, the impact of any future regulations is not determinable.

NOTE K--OTHER REVENUE

The American Recovery and Reinvestment Act of 2009 and the Health Information Technology for Economic and Clinical Health (HITECH) Act established incentive payments under the Medicare and Medicaid programs for certain healthcare providers that use certified Electronic Health Record (EHR) technology. To qualify for incentive payments, healthcare providers must meet designated EHR meaningful use criteria as defined. Compliance with meaningful use criteria is subject to audit by the federal government or its designee and incentive payments are subject to adjustment in a future period. The Hospital recognizes revenue for EHR incentive payments when substantially all contingencies have been met. During 2014, the Hospital recognized approximately \$3,400,000 of other revenue related to EHR incentive payments. No amounts were recognized in 2013.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

NOTE L--BLENDED COMPONENT UNIT INFORMATION

Condensed financial information of the Hospital's blended component units is as follows:

Statements of Net Position - June 30, 2014

	<i>Hospital</i>	<i>FHG</i>	<i>Surgery Center</i>	<i>Foundation</i>
Assets				
Current assets	\$ 71,924,943	\$ 4,597,341	\$ 554,668	\$ 1,185,518
Due (to) from affiliates	1,610,497	4,962	(1,029,045)	-
Property, plant, and equipment	111,134,233	1,726,764	4,724,338	-
Other assets	44,856,675	(40,938)	404,318	-
	<u>\$ 229,526,348</u>	<u>\$ 6,288,129</u>	<u>\$ 4,654,279</u>	<u>\$ 1,185,518</u>
Liabilities				
Current liabilities	\$ 29,467,723	\$ 4,397,892	\$ 588,307	\$ -
Long-term debt	12,150,086	-	3,634,420	-
Other liabilities	5,398,829	-	-	-
	<u>47,016,638</u>	<u>4,397,892</u>	<u>4,222,727</u>	<u>-</u>
Net Position				
Net investment in capital assets	96,566,451	1,726,764	501,675	-
Unrestricted	85,943,259	163,473	(70,123)	1,185,518
	<u>182,509,710</u>	<u>1,890,237</u>	<u>431,552</u>	<u>1,185,518</u>
	<u>\$ 229,526,348</u>	<u>\$ 6,288,129</u>	<u>\$ 4,654,279</u>	<u>\$ 1,185,518</u>

Statements of Revenue, Expenses and Changes in Net Position - Year Ended June 30, 2014

	<i>Hospital</i>	<i>FHG</i>	<i>Surgery Center</i>	<i>Foundation</i>
Operating Revenue				
Net patient service revenue	\$ 254,108,622	\$ 28,908,267	\$ 428,587	\$ -
Other operating revenue	13,589,355	4,923,374	-	-
	<u>267,697,977</u>	<u>33,831,641</u>	<u>428,587</u>	<u>-</u>
Operating expenses	239,583,862	37,951,373	863,419	473,652
Depreciation and amortization	15,965,383	897,871	106,095	-
INCOME (LOSS) FROM OPERATIONS	<u>12,148,732</u>	<u>(5,017,603)</u>	<u>(540,927)</u>	<u>(473,652)</u>
Nonoperating revenue (expenses)	1,673,059	(2,163)	-	752,684
Equity in affiliate losses	(6,488,927)	-	-	-
Interest Expense	(705,980)	(510)	(48,360)	-
EXCESS OF REVENUE OVER EXPENSES	<u>6,626,884</u>	<u>(5,020,276)</u>	<u>(589,287)</u>	<u>279,032</u>
Capital contributions/Transfers	-	4,478,136	1,020,839	-
CHANGE IN NET POSITION	<u>6,626,884</u>	<u>(542,140)</u>	<u>431,552</u>	<u>279,032</u>
NET POSITION, BEGINNING OF YEAR	<u>175,882,826</u>	<u>2,432,377</u>	<u>-</u>	<u>906,486</u>
NET POSITION, END OF YEAR	<u>\$ 182,509,710</u>	<u>\$ 1,890,237</u>	<u>\$ 431,552</u>	<u>\$ 1,185,518</u>

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

Statements of Cash Flows - Year Ended June 30, 2014

	<i>Hospital</i>	<i>FHG</i>	<i>Surgery Center</i>	<i>Foundation</i>
Cash flows from operating activities	\$ 25,631,637	\$ 976,042	\$ 784,615	\$ (847,341)
Cash flows from noncapital financing activities	531,499	-	-	632,495
Cash flows from capital and related financing activities	(12,605,395)	(824,376)	(596,842)	-
Cash flows from investing activities	(5,406,607)	-	-	120,189
Increase in cash and cash equivalents	8,151,134	151,666	187,773	(94,657)
Cash and cash equivalents, beginning of year	28,748,676	(368,306)	150,421	150,421
Cash and cash equivalents, end of year	\$ 36,899,810	\$ (216,640)	\$ 338,194	\$ 55,764

NOTE M--DISCRETELY PRESENTED COMPONENT UNIT INFORMATION

Condensed financial information of the Hospital's blended component units is as follows:

Statements of Net Position

	<i>June 30, 2014</i>	
	<i>Imaging Center</i>	<i>VMRO</i>
Assets		
Current assets	\$ 538,776	\$ 342,891
Due (to) from affiliates	(585,192)	-
Property, plant, and equipment	481,114	5,314,890
	<u>\$ 434,698</u>	<u>\$ 5,657,781</u>
Liabilities		
Current liabilities	\$ 201,411	\$ 828,768
Long-term debt	661,777	4,360,459
	<u>863,188</u>	<u>5,189,227</u>
Net Position		
Net investment in capital assets	(180,663)	214,301
Unrestricted	(247,827)	254,253
	<u>(428,490)</u>	<u>468,554</u>
	<u>\$ 434,698</u>	<u>\$ 5,657,781</u>

MAURY REGIONAL HOSPITAL***Notes to Combined Financial Statements - Continued******Years Ended June 30, 2014 and 2013*****Statements of Revenue, Expenses and Changes in Net Position**

	<i>Year Ended June 30, 2014</i>	
	<i>Imaging Center</i>	<i>VMRO</i>
Operating revenue	\$ 2,274,872	\$ 665,063
Operating expenses	2,170,935	1,192,609
Depreciation and amortization	73,175	605,845
INCOME (LOSS) FROM OPERATIONS	30,762	(1,133,391)
Interest expense	49,074	316,642
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	(18,312)	(1,450,033)
Capital contributions/Transfers	300,000	350,000
CHANGE IN NET POSITION	281,688	(1,100,033)
NET POSITION, BEGINNING OF YEAR	(710,178)	1,568,587
NET POSITION, END OF YEAR	\$ (428,490)	\$ 468,554

At June 30, 2014, the Imaging Center owes MRMC approximately \$585,000 for reimbursement of expenses. MRMC made capital contributions to the Imaging Center totaling \$153,000 and \$347,714 for the years ended June 30, 2014 and 2013, respectively. MRMC made capital contributions to VMRO totaling \$210,000 and \$976,650 for the years ended June 30, 2014 and 2013, respectively.

SECTION III

INTERNAL CONTROL AND COMPLIANCE SECTION

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Maury Regional Hospital:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the business-type activities and aggregate discretely presented component units of Maury Regional Hospital (the Hospital) as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Pending Query: Amounts PC

Knoxville, Tennessee
October 27, 2014